

Roate, George

From: John.Bebberman@uchospitals.edu
Sent: Friday, February 08, 2013 12:16 PM
To: Roate, George
Subject: Project 07-153 Debt Financing Increase
Attachments: 3600_001.pdf

RECEIVED

FEB 08 2013

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Hi George.

Attached is notification that we are increasing the debt financing on Project 07-153. Also included are recent debt ratings for us, all better than A-. We talked about this a year ago and I think this courtesy letter is sufficient. Would you like me to mail the originals? If so, is the signature page alone sufficient?

Have a good weekend.

John

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Thank you

University of Chicago Medical Center



THE
UNIVERSITY
OF CHICAGO
HOSPITALS

CAPITAL BUDGET AND CONTROL

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FEB 08 2013

HEALTH FACILITIES &
SERVICES REVIEW BOARD

February 8, 2013

Mr. George Roate
Health Facilities and Services Review Board - 2nd Floor
525 West Jefferson Street
Springfield, Il. 62761

In Re: Change in Debt Financing – Project #07-153 New Hospital Pavilion

Dear Mr. Roate:

This is to inform you that we are increasing the amount of debt financing for Project #07-153 New Hospital Pavilion. The build out of our retail food services areas is being done through our food service vendor, Sodexo. The arrangement is that the cost (\$6,757,215) would be reimbursed to Sodexo through retail food sale revenue over a period of years.

We carefully examined whether this approach was debt financing and concluded, with consultation from our auditor Price Waterhouse that it was. Therefore, the debt financing amount for this project increases from \$500,000,000 to \$506,757,215.

Enclosed are copies of recent credit ratings from Fitch ratings, Moody's Investors Service, and Standard and Poor's, which rate our debt at AA-, Aa3, and AA- respectively. All are equal to or better than A-, which according to our conversation of January 19, 2012 means that this notification is sufficient for increasing the debt amount.

Please let us know if you need any further information.

Sincerely,

John R. Beberman
Director, Capital Budget & Control

FitchRatings

FITCH RATES UNIVERSITY OF CHICAGO MEDICAL CENTER'S (IL) SER 2012A REVS 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-07 June 2012: Fitch Ratings assigns its 'AA-' long-term rating to the approximately \$74.4 million Illinois Finance Authority, revenue bonds, series 2012A (University of Chicago Medical Center). In addition, Fitch affirms the 'AA-' long-term rating on the University of Chicago Medical Center's (UCMC) outstanding debt.

The Rating Outlook is Stable.

The series 2012A bonds are expected to be fixed rate and will refund the series 2001 bonds. UCMC also plans to issue \$75 million of additional debt through a direct bank loan in 2013, which was incorporated in this rating action. Total pro forma debt outstanding is \$921 million with 47% traditional fixed rate, 35% synthetic fixed, 17% variable rate. The series 2012A bonds are expected to price the week of June 18th.

SECURITY

Debt payments are secured by a pledge of unrestricted receivables

KEY RATING DRIVERS

SOLID MARKET POSITION: UCMC is among the leading academic medical centers in the U.S. and maintains a strong reputation for clinical excellence in the provision of advanced high-acuity services that has led to a strong financial profile which is characteristic of an 'AA' category credit.

INTEGRAL RELATIONSHIP WITH THE UNIVERSITY: UCMC plays a fundamental role in the highly integrated clinical and research platform between UCMC and the University of Chicago's (the university; revenue bonds rated 'AA+' by Fitch) Biological Sciences Division, which includes the Pritzker School of Medicine.

NEW HOSPITAL PAVILION PROJECT ON TRACK: UCMC's new hospital pavilion project is on time and within budget. The total project cost is \$700 million with \$500 million funded by debt and \$200 million funded from cash flow and philanthropy. The new pavilion is expected to open in January 2013.

COMPETITIVE MARKET: Although UCMC operates in the highly fragmented and competitive greater Chicago metropolitan area, UCMC's closed faculty staff, research platform, high-acuity service focus, and increasing affiliations with other community providers differentiates it from other competitors.

CREDIT PROFILE

Since Fitch's last rating review, UCMC essentially has a new leadership team that has been in place less than two years. Due to the integrated structure with the university, the president and CFO of UCMC report to the Dean of the Biological Sciences Division (BSD) and Pritzker School of Medicine. The new leadership is focused on leveraging the organization's reputation and enhancing its relationships with community providers, as well as reducing cost and improving operating efficiency.

The 'AA-' rating reflects UCMC's excellence and reputation in advanced high-acuity clinical services, the integral role of UCMC within the university, and its solid financial profile. Located on the main campus of the university, UCMC is the principal teaching affiliate of the university's Pritzker School of Medicine. While UCMC provides a comprehensive array of services, its focus

2012 Rating

and clinical excellence is in quaternary care. The university is the sole corporate member of UCMC. UCMC benefits from the closed medical staff model as all active physicians are also faculty at the university and a newly created Dean of Clinical Practice position is expected to improve the coordination among the physicians in the faculty practice plan.

UCMC has been successful in partnering with other providers in the area, which has allowed it to focus on the complex cases while the primary and secondary services are treated in more cost effective settings of its regional partners. These affiliations include Mercy Hospital and NorthShore University Health System. In addition, UCMC entered into a joint venture with Silver Cross Hospital on a cancer center at Silver Cross' new hospital, which has already resulted in improved referrals from this market.

However, the market remains very competitive and fragmented with UCMC capturing 3.1% of the privately insured tertiary and quaternary market in the metropolitan Chicago area. The market leader is Northwestern Memorial Hospital with 5.3%. Fitch expects UCMC's market share to grow as management continues to increase its regional partnerships in addition to ongoing physician recruitment and added capacity in the new hospital pavilion.

UCMC's new hospital pavilion (NHP) project is on time and within budget and expected to open in January 2013. The NHP will house the programs for adult complex cases in one building with a focus on cancer, gastrointestinal, neuroscience, advanced surgery and high-tech imaging. There will also be two shelled floors for future expansion. At project completion, UCMC will operate a total of 555 beds and will open with 21 out of a maximum of 28 new operating rooms.

The total project cost is \$700 million with \$500 million funded from debt, \$100 million from cash flow and \$100 million from philanthropy. The \$500 million of debt has been issued. Fundraising has been slower than expected with only \$22 million raised to date. Also of note is the need for additional parking given the NHP, which was not foreseen during the initial planning for the NHP. Management is currently acquiring the land for the parking garage with an expected opening in August 2014. This will be financed with \$75 million direct bank loan in October 2013. Fitch expects management will be able to handle the temporary disruptive parking situation since the parking garage will open after the NHP, which is imperative since UCMC needs to maintain strong cash flow given its high debt burden.

UCMC's overall financial profile is solid with financial ratios generally exceeding the 'AA' category medians. Profitability has been strong and consistent with operating EBITDA margins of 12.4% in fiscal 2011, 13.8% in fiscal 2010 and 12.2% in fiscal 2009 compared to the 'AA' category median of 10.6%. Profitability has been driven by volume growth, focus on highly complex cases and improving payor mix, and implementation of lean initiatives. Through the nine months ended March 31, 2012, operating cash flow remains very strong with 16.1% operating EBITDA margin (includes a non-recurring \$20 million payment related to prior year medical education expenses). The fiscal 2013 budget includes an operating EBITDA margin of 14.7% (\$187 million).

Liquidity is strong with \$971 million of unrestricted cash and investments or 325.1 days cash on hand at March 31, 2012 compared to the 'AA' category median of 240. Days cash on hand has remained above 250 days over the last five years. A portion of UCMC's investments are invested with the university; however, the overall availability of its investments is fairly liquid. Moreover, liquidity is solid despite a rise in days in accounts receivable to 66.3 at March 31, 2012 from 43.6 at fiscal year-end 2011 reflecting a significant increase in Illinois Medicaid accounts receivable due to the state's financial condition.

Fitch's main credit concern is UCMC's above-average debt burden. Pro forma ratios include maximum annual debt service (MADS) of 4.2% of total revenue in fiscal 2011 compared to the 'AA' category median of 2.6% and debt-to-capitalization of 44.5% compared to the 'AA' category median of 34.4%. In addition, MADS coverage by operating EBITDA is low 2.9x for fiscal 2011 compared to 3.1x the prior year and the 'AA' category median of 4.1x. Coverage is more pressured at 2.5x for fiscal 2011 when the transfer to the university (\$23 million) is included. Furthermore, UCMC expects to increase the amount transferred due to its commitment in supporting the basic sciences and research; however, this transfer is at the sole discretion of the board and is subordinate

to debt service. Pro forma cash-to-debt is more pressured with the additional debt expected in 2013, but is still over 1x. The debt burden is mitigated by UCMC's strong qualitative factors including its integral role as part of the university and its market position in addition to its consistent solid cash flow.

Total outstanding debt after this issuance is approximately \$921 million with 47% underlying fixed-rate, 35% underlying VRDBs, and 9.2% tax exempt commercial paper (supported by a letter of credit) and 8.1% indexed floating direct bank loan. UCMC's LOC exposure is diversified among four different banks, and all the expiration dates range from 2012 to 2016. UCMC's cash-to-putable debt is solid at 2.7x. UCMC has a \$325 million floating to fixed rate swap with two counterparties and is posting \$9.6 million of collateral at March 31, 2012 on one of the swaps (\$50 million threshold), and the other swap does not have collateral posting requirements unless UCMC's rating is downgraded to A+ or lower.

The Stable Outlook is based on the expectation that UCMC will continue to maintain its strong operating cash flow and bring the NHP online with minimal operational disruption. Liquidity metrics may be compressed due to the funding of the equity portion of the project as well as any shortfall in fundraising proceeds and increased transfers to the university. Therefore, it is imperative that UCMC maintain its strong operating cash flow.

UCMC currently operates a total of 567 beds at three hospitals including the Bernard A. Mitchell Hospital (adult facility), Chicago Lying-in Hospital (women's hospital), and Comer Children's Hospital, which are all located in Chicago on the main campus of the university. Total revenue for the fiscal year ended June 30, 2011 was \$1.2 billion. UCMC covenants to provide annual audited financials within 150 days of fiscal year end and unaudited quarterly financials for the first three fiscal quarters within 60 days of quarter end.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

- 'Revenue-Supported Rating Criteria', dated June 20, 2011;
- 'Nonprofit Hospitals and Health Systems Rating Criteria', dated Aug. 12, 2011.

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130

Nonprofit Hospitals and Health Systems Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648836

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Moody's

INVESTORS SERVICE

New Issue: Moody's assigns Aa3 rating to The University of Chicago Medical Center's (IL) Series 2012A fixed rate revenue bonds; Parity ratings affirmed; Outlook remains stable

Global Credit Research - 08 Jun 2012

Approximately \$756 million of rated debt to be outstanding

ILLINOIS FINANCE AUTHORITY
Hospitals & Health Service Providers
IL

Moody's Rating

ISSUE	RATING
Fixed Rate Hospital Revenue Bonds, 2012 A	Aa3
Sale Amount	\$74,410,000
Expected Sale Date	06/19/12
Rating Description	Revenue: Other

Moody's Outlook STA

Opinion

NEW YORK, June 08, 2012 —Moody's Investors Service has assigned a Aa3 rating to The University of Chicago Medical Center's (UCMC) \$74.4 million of Series 2012A fixed rate revenue refunding bonds to be issued through the Illinois Finance Authority. Concurrent with this action, we are affirming UCMC's Aa3 long-term and underlying ratings (see Rated Debt section). The outlook remains stable. As part of the current plan of finance, UCMC also is in the process of replacing the irrevocable direct pay letters of credit (LOC) from Bank of America, N.A. supporting the Series 2009D-1 and Series 2009D-2 variable rate demand bonds (VRDB) with LOCs from PNC Bank, N.A. The expected financial covenants included in the PNC LOC reimbursement agreement include: (a) minimum debt service coverage ratio of 1.25 times; (b) minimum cash on hand of 120 days cash; and (c) maximum debt-to-capitalization of 60%. In total, UCMC has approximately \$410 million of VRDB bonds and commercial paper supported by LOCs from Wells Fargo, JPMorgan Chase Bank, Northern Trust, and Bank of America.

RATINGS RATIONALE

SUMMARY RATINGS RATIONALE: The assignment and affirmation of the Aa3 rating and stable outlook reflect UCMC's continued favorable operating results, maintenance of good cash on hand, and strong relationship with Aa1 rated University of Chicago. UCMC is issuing more debt than what was planned originally and its debt coverage ratios are stressed at the Aa3 rating level.

STRENGTHS

*Status as a controlled entity of Aa1 rated University of Chicago. While UCMC is a separate 501(c)(3) from the university, UCMC and the university are very closely integrated (e.g., the university is the sole corporate member of UCMC and every member of the UCMC board is appointed by the university board).

*Large, nationally recognized academic medical center with high acuity mix of tertiary and quaternary services including a children's hospital. UCMC's Medicare case mix index measured a very high 2.17 in fiscal year (FY) 2011 (the all ratings median Medicare CMI is 1.59).

*Trend of good operating results in recent years continues in interim FY 2012 (11.5% adjusted operating cash flow

margin through nine months FY 2012).

*Good cash on hand with adjusted 290 days at March 31, 2012.

CHALLENGES

*UCMC is one of five academic medical centers in the very competitive Chicago healthcare market.

*High exposure to Medicaid, which represented 23% of gross revenues in FY 2011. We note that UCMC's children's hospital elevates the system's Medicaid share of business.

*UCMC is adding more debt than what was expected originally to support the construction of a parking garage that was not a part of the original capital program. Factoring \$75 million of new money debt expected to be issued by calendar year end 2012, UCMC's Moody's adjusted pro forma debt ratios are stressed at the Aa3 rating level (pro forma 105% cash-to-debt, 5.2 times debt-to-cash flow, 4.1 times maximum annual debt service coverage, and 67% debt-to-total operating revenue).

*UCMC is relatively highly unionized, as nearly half of UCMC's employees are members of a bargaining unit.

*UCMC participates in the university's defined benefit pension plan, which was underfunded at fiscal year end (FYE) 2011 (pension funded ratio of 59% relative to a projected benefit obligation of approximately \$651 million); we note that UCMC's use of operating leases is minimal (debt equivalent of nearly \$25 million at FYE 2011 based on multiplier method).

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: The Series 2012A bond proceeds will be used to: (1) refund the Series 2001 fixed rate bonds; and (2) pay the costs of issuance.

LEGAL SECURITY: The Series 2012A bonds are expected to be joint and several general obligation of the obligated group and secured by a pledge of the obligated group's unrestricted receivables. UCMC is the only member of the obligated group. The bond documents do not include a mortgage pledge. Aa1 rated University of Chicago is not a member of the obligated group.

INTEREST RATE DERIVATIVES: In August 2006, UCMC entered into a forward starting interest rate swap with JPMorgan Chase Bank, N.A. The notional amount of the swap is \$325 million. In July 2011, UCMC novated half the swap to Wells Fargo. The effective start date of the swap was August 9, 2011 and the termination date is February 2044. Under the swaps, UCMC pays the counterpart fixed rates of 3.890% and 3.9695% and receives a floating rate of 68% of LIBOR. The fair value of the swap was a negative \$58.1 million to UCMC as of audited FYE 2011 (June 30 year end) and, according to management, negative \$108.9 million at March 31, 2012.

MARKET POSITION/COMPETITIVE STRATEGY: VERY CLOSE INTEGRATION WITH UNIVERSITY OF CHICAGO; ONE OF FIVE ACADEMIC MEDICAL CENTERS IN COMPETITIVE SERVICE AREA

We view the close integration between The University of Chicago and UCMC as a key credit strength for UCMC. UCMC is located on the campus of The University of Chicago. In 1986, the university incorporated UCMC as a separate 501(c)(3), but the university and UCMC remain tightly integrated. UCMC and the university's Biological Sciences Division (BSD) are components of an integrated oversight structure that is headed by the Dean of the BSD and Pritzker School of Medicine (who also is the university Executive Vice President for Medical Affairs). According to management, UCMC/BSD comprise approximately 61% of the university's consolidated revenues. The university board appoints 100% of the UCMC board members.

UCMC (with approximately 24,000 inpatient admissions, based on annualizing nine months FY 2012) is one of five academic medical centers in the Chicago area. Other academic medical centers in the market include: University of Illinois Health Services; Aa2 rated Northwestern Memorial Hospital; Loyola University Health System (recently acquired by Aa2 rated Trinity Health); and Rush University Medical Center (a member of A2 rated Rush University Medical Center Obligated Group). In addition to the competing academic medical centers, UCMC faces competition from a number of sizeable acute care systems in the market, notably market share leader Aa2 rated Advocate Health Care Network. Northwestern Memorial is the largest single hospital in the Chicago area. According to UCMC management, the market for complex cases is fragmented. Advocate's Christ Medical Center and Lutheran General Hospital combined capture the market share lead for complex cases in the Chicago area with 8.0% market share,

followed by Northwestern Memorial with 5.3%, Rush with 3.5%, UCMC with 3.1%, and Loyola with 2.9%.

Over the last two years, virtually all of UCMC's senior management has changed, including a new Dean of the BSD, new President of UCMC, and new CFO of UCMC. As a result of prior strategies to limit volumes, the new management team believes UCMC has capacity for considerable volume growth and market share capture.

OPERATING PERFORMANCE: TREND OF GOOD OPERATING RESULTS

UCMC has a track record of good operating results in recent years, which has continued in interim FY 2012. Through nine months FY 2012 (as of March 31, 2012), UCMC recorded adjusted operating income of \$56.7 million (5.6% operating margin, adjusted to include transfers to the University of Chicago as an operating expense and reclassify bad debt from an operating revenue deduction to an operating expense) and operating cash flow of \$116.8 million (11.5% operating cash flow margin). For the same period FY 2011, UCMC recorded adjusted operating margin of 4.4% and operating cash flow margin of 10.7%. In full year audited FY 2011, UCMC recorded adjusted operating income of \$44.2 million (3.6% margin) and operating cash flow of \$129.8 million (10.6% margin). UCMC has recorded profitable operating results and an adjusted operating cash flow margin of at least 8.7% since UCMC recorded an adjusted operating loss margin of 1.5% and operating cash flow margin of 4.9% in FY 2006.

The factors contributing to the continued good operating performance in interim FY 2012 include: (a) A 5.1% increase in inpatient admissions and a 5.7% increase in total surgeries, driven by the new management team's focus on volume growth and market share capture. Management notes that program growth has been an area of focus across multiple service lines, including cancer, cardiovascular, solid organ transplants, pediatrics, and orthopedics. (b) Various cost management efforts, including improved supply chain management, better flexing of staffing levels to match volume fluctuations, and increased throughput as reducing the average length of stay (ALOS) has been an area of focus (the ALOS has decreased from 6.35 days in FY 2010 to 6.27 days in FY 2011 to 6.08 days through nine months FY 2012).

Looking forward, management expects UCMC to continue to generate favorable operating cash flow. We note, however, that UCMC's budgeted results for FY 2013 are more modest than the recent track record, as the budget calls for an adjusted operating margin of -0.2% and adjusted operating cash flow margin of 9.0% (adjusted to include transfers to the University of Chicago as an operating expense). There are three factors contributing to the expected more modest performance in FY 2013: (a) added costs associated with the New Hospital Pavilion (NHP, which is expected to open in early calendar year 2013) such as \$53 million (annualized) of depreciation and interest expenses (which suppress the operating margin but not the operating cash flow margin) and \$25 million (annualized) of new operating costs (which suppress the operating and operating cash flow margins); (b) continued growth in transfers to the University of Chicago, which increased from \$23 million in FY 2011 to an estimated \$63 million in full year FY 2012 to \$72 million in FY 2013; and (c) Medicaid cuts of approximately \$18 million are factored in the FY 2013 budget (although management expects the actual hit to UCMC to be less than \$10 million). Management will continue to focus on expense management and volume growth (management believes UCMC's volume base is artificially low and that the hospital can generate approximately 2.5% inpatient volume growth over the next five years).

UCMC's pro forma Moody's adjusted debt ratios are modest at the Aa3 rating level. Factoring the Series 2012A fixed rate refunding bonds (but not including the variable rate tax-exempt direct bank loan expected by the end of calendar year 2012) and based on nine months FY 2012 results annualized, adjusted debt-to-cash flow measures a high 4.7 times (Aa3 median is 2.6 times), adjusted maximum annual debt service (MADS) coverage measures 4.3 times (Aa3 median is 5.8 times), and debt-to-total operating revenue measures a high 62% (Aa3 median is 33%). Factoring the direct bank loan expected later in the year (currently estimated at \$75 million) will depress these ratios further.

BALANCE SHEET POSITION: GOOD CASH ON HAND, MODEST DEBT COVERAGE

UCMC's absolute unrestricted cash and investments increased modestly to \$964 million at March 31, 2012 from \$958 million at FYE 2011, despite UCMC's accounts receivable days increasing to 66 days from 44 days over the period (due to the State of Illinois delaying Medicaid payments to address the State's budgetary concerns). Due to a rising expense base, however, cash on hand moderated to a still strong 290 days at March 31, 2012 from 313 days at FYE 2011. Cash-to-debt remained largely unchanged, measuring a somewhat modest 114% at March 31, 2012 and 113% at FYE 2011. Cash-to-demand debt measured 235% at March 31, 2012.

Approximately 47% of UCMC's unrestricted cash and investments are invested in The University of Chicago's Total Return Investment Pool (TRIP) (the primary endowment for the university), which is somewhat illiquid to UCMC. With

respect to access, UCMC may access these funds on a monthly basis, upon at least 14 days' advance notice to the university prior to the end of any calendar month. As an example, if UCMC gave notice on August 10, the funds would be made available by August 31; if UCMC gave notice on August 20, the funds would be made available by September 30. Consequently, UCMC's monthly liquidity varies depending on timing. We note that in giving up some degree of liquidity, UCMC benefits from the university's considerable investment expertise. According to management, at FYE 2011 UCMC's total unrestricted cash and investments were allocated among approximately 35% cash and fixed income, 17% equities, and 48% other investments (the latter of which primarily through the university's TRIP). UCMC's monthly liquidity-to-demand debt measured a modest 122% at FYE 2011, taken conservatively (i.e., removing the TRIP funds from the calculation).

UCMC continues to focus on construction of the new \$700 million NHP located just north of the Comer Children's Hospital. Construction of the NHP started in calendar 2009 and is expected to open in early calendar year 2013. Recently, UCMC added the construction of a new \$80 million parking garage to its capital program. The parking garage is expected to be financed by an estimated \$75 million variable rate tax-exempt direct bank loan later in calendar year 2012. Beyond the expected 2012 direct bank loan, UCMC does not have additional new money debt plans through FYE 2016.

Outlook

The stable outlook reflects UCMC's continued favorable operating results, maintenance of good cash on hand, and strong relationship with Aa1 rated University of Chicago.

WHAT COULD MAKE THE RATING GO UP

Material cash flow growth resulting in significantly improved debt coverage ratios; significant and sustained market share growth in high-margin service lines; material strengthening of balance sheet ratios; explicit debt guarantee by the University of Chicago

WHAT COULD MAKE THE RATING GO DOWN

Sustained weaker operating performance leading to thinner debt coverage ratios; weakening of balance sheet ratios; material market share loss; weakened affiliation with The University of Chicago

KEY INDICATORS

Assumptions & Adjustments:

- Based on The University of Chicago Medical Center financial statements
- First number reflects audited FY 2011 for the year ended June 30, 2011
- Second number reflects pro forma on unaudited nine months FY 2012 annualized
- Pro forma includes issuance of \$74.4 million of Series 2012A fixed rate bonds to refund UCMC's Series 2001 fixed rate bonds (the pro forma ratios do not include the expected issuance of \$75 million of variable rate tax-exempt direct bank loan later in calendar year 2012)
- Transfers to The University of Chicago reclassified as an operating expense (\$23.0 million in FY 2011, \$63.0 million projected in full year FY 2012)
- Investment returns smoothed at 6%
- *Inpatient admissions: 22,797; 23,979 (based on annualizing nine months FY 2012)
- *Total operating revenues: \$1.23 billion; \$1.36 billion
- *Moody's-adjusted net revenues available for debt service: \$187 million; \$214 million
- *Total debt outstanding: \$848 million; \$841 million
- *Maximum annual debt service (MADS): \$49.6 million; \$49.6 million

- *MADS Coverage with reported investment income: 3.51 times; 3.56 times
- *Moody's-adjusted MADS Coverage with normalized investment income: 3.78 times; 4.30 times
- *Debt-to-cash flow: 5.02 times; 4.71 times
- *Days cash on hand: 313 days; 284 days
- *Cash-to-debt: 113%; 115%
- *Monthly liquidity-to-demand debt: 122% at FYE 2011
- *Total comprehensive debt (factoring operating leases and underfunded portion of the defined benefit pension plans): \$1.14 billion at FYE 2011
- *Adjusted cash-to-comprehensive debt: 84% at FYE 2011
- *Operating margin: 3.6%; 3.9%
- *Operating cash flow margin: 10.6%; 11.5%
- *Medicare (% of gross revenues): 33.2%; 33.3%
- *Medicaid (% of gross revenues): 22.6%; 22.3%

RATED DEBT

Issued through Illinois Health Facilities Authority (debt outstanding as of June 30, 2011):

- Series 2001 Fixed Rate Hospital Revenue Bonds (\$79.7 million outstanding; expected to be refunded by Series 2012A fixed rate bonds), insured by MBIA, Aa3 unenhanced rating
- Series 2003 Fixed Rate Hospital Revenue Bonds (\$27.7 million outstanding), insured by MBIA, Aa3 unenhanced rating
- Series 2009A Fixed Rate Hospital Revenue Bonds (\$69.0 million outstanding), rated Aa3
- Series 2009B Fixed Rate Hospital Revenue Bonds (\$84.6 million outstanding), rated Aa3
- Series 2009C Fixed Rate Hospital Revenue Bonds (\$85.0 million outstanding), rated Aa3
- Series 2009D VRDB Revenue Bonds (\$70.0 million outstanding), rated Aa1/VMIG 1 reflecting Moody's approach to rating jointly supported transactions and based upon LOC provided by Bank of America, N.A. (the LOC expires in August 2012) (UCMC is in the process of replacing the Bank of America LOC with an LOC provided by PNC Bank, N.A.), Aa3 underlying rating
- Series 2009E VRDB Revenue Bonds (\$70.0 million outstanding), rated Aa1/VMIG 1 reflecting Moody's approach to rating jointly supported transactions and based upon LOC provided by JPMorgan Chase Bank, N.A. (the LOC expires in August 2012), Aa3 underlying rating
- Series 2010A VRDB Revenue Bonds (\$46.3 million outstanding), LOC provided by Bank of America, N.A. (the LOC expires in November 2015), Aa3 underlying rating
- Series 2010B VRDB Revenue Bonds (\$46.3 million outstanding), LOC provided by Wells Fargo Bank, N.A. (the LOC expires in November 2015), Aa3 underlying rating
- Series 2011A VRDB Revenue Bonds (\$46.3 million outstanding), LOC provided by Bank of America, N.A. (the LOC expires in May 2016), Aa3 underlying rating
- Series 2011B VRDB Revenue Bonds (\$46.3 million outstanding), LOC provided by Wells Fargo Bank, N.A. (the LOC expires in May 2016), Aa3 underlying rating
- Series 2011C Fixed Rate Hospital Revenue Bonds (\$90.0 million outstanding), rated Aa3

CONTACTS

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Underwriter: Suzanne Beitel, JPMorgan Securities Inc., (212) 270-6854

Financial Advisor: Mark Melio, Melio & Company, (847) 441-2900

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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June 12, 2012

Illinois Finance Authority University of Chicago Medical Center; Hospital; Joint Criteria

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Credit Profile

US\$75.0 mil rev bnds (University of Chicago Med Ctr) ser 2012A due 06/30/2037

Long Term Rating

AA-/Stable

New

Illinois Fin Auth, Illinois

University of Chicago Med Ctr, Illinois

Illinois Finance Authority (University of Chicago Medical Center)

Long Term Rating

AA-/Stable

Affirmed

Unenhanced Rating

NR(SPUR)

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to the Illinois Finance Authority's (IFA) \$75 million series 2012A bonds issued on behalf of the University of Chicago Medical Center (UCMC). Standard & Poor's also affirmed its 'AA-' long-term rating and underlying rating (SPUR) on IFA's series 2001, 2003, 2009A, 2009B, 2009C, 2009E, and 2011C bonds. The outlook on all ratings is stable.

In addition, Standard & Poor's affirmed its 'AAA/A-1' rating on IFA's series 2009E-1 and 2009E-2 variable-rate demand revenue refunding bonds also issued on behalf of UCMC. The rating on the series 2009E-1 and 2009E-2 is based on the joint support of irrevocable, direct-pay letters of credit (LOCs) provided by JPMorgan Chase N.A. (A+/A-1) and the pledged support of UCMC.

The ratings reflect our view of the relatively new leadership team's continued improvement of operations while it is completing the major construction project of a new hospital pavilion. Although the new management team has been put in place during only the past 18 months, we have seen a recent improvement in utilization at UCMC in the highly competitive Chicago market. But although liquidity has increased, other ratios related to the balance sheet have remained flat or declined as UCMC has issued debt in relation to the construction project.

The ratings further reflect our opinion of UCMC's:

- Improved operations in the first nine months of fiscal 2012, which have resulted in good pro forma maximum annual debt service coverage;
- Continued successful strategy of attracting the appropriate acuity patients while enhancing service lines to attract more patients; and
- Strong health system management.

Partly offsetting the above strengths, in our opinion, are UCMC's:

- Balance sheet pressure during the past couple of years because of the issuance of debt to fund the construction of the new hospital pavilion coupled with an anticipated \$75 million of further debt to be issued later in calendar

2012 for a new parking structure; and

- Construction risk associated with the new hospital pavilion and anticipated parking garage.

We understand that UCMC will use the proceeds of the series 2012A bonds to current refund the series 2001 bonds. Upon completion of the new issuance, we will withdraw the rating for the series 2001 bonds. Later in calendar 2012, UCMC will issue another \$75 million of debt and use \$5 million of equity to build a new parking garage for the newly constructed hospital pavilion. UCMC is anticipating employing direct placement debt for the \$75 million.

UCMC, located on the South Side of Chicago, operates Bernard Mitchell Hospital, the main adult-care facility; Chicago Lying-In Hospital, the maternity and women's facility; University of Chicago Comer Children's Hospital; Duchossois Center for Advanced Medicine; and various other outpatient clinics and treatment areas. UCMC has approximately 558 beds in service at any given time.

Outlook

The stable outlook reflects our anticipation that UCMC will at least meet its budget for fiscal 2013, which calls for an operating margin of 5.5%, liquidity of approximately 300 days' cash, and leverage of 41%. The anticipated decline in operations should result primarily from the opening of the new hospital pavilion and its associated cost. We do not anticipate raising the rating during the outlook period. However, further decline in the balance sheet or a drastic decline in operations as compared with budget could lead us to revise the outlook and/or rating.

Enterprise Profile

Admissions were relatively flat during the past two years, which was part of UCMC's strategy. UCMC attributes the flatness primarily to the Urban Health Initiative (UHI), which UCMC undertook in 2005. However, for the first nine months of fiscal 2012, UCMC's admissions were 17,984, up 5.1% from the prior-year period. UCMC has experienced growth in numerous areas, including patient days, outpatient activity, emergency room visits, inpatient and outpatient surgery cases, and radiation oncology visits. Management reports that although UCMC has seen a 5% increase in admissions, the overall market has experienced a 4% decline in admissions. In the Chicago market, UCMC competes with Northwestern Memorial Hospital, Rush University Medical Center, University of Illinois at Chicago Medical Center, Loyola Hospital, and other facilities on the South Side of Chicago.

UCMC has a very good relationship with the University of Chicago's Biological Sciences Division and Pritzker School of Medicine (BSD), with which it shares a senior management team. In combination, UCMC and BSD are a \$1.9 billion entity, representing approximately 60% of the total university budget. UCMC and BSD work closely together and support each other's endeavors. BSD generally funds research and UCMC completes patient care. Although funds are maintained separately, the balance sheet of the two entities includes \$2 billion of cash and investments.

Management

During the past 18 months a new leadership team has been built to lead UCMC. The transition to the new leadership team began with the appointment of one person, Dr. Kenneth Polonsky, as both the dean of BSD and university executive vice president for medical affairs (head of the medical center). Since Dr. Polonsky's

appointment, a new president, chief financial officer, and chief operating officer have been appointed at UCMC. The new leadership team continues to focus on improving operations, completing the new hospital pavilion; strengthening patient care, and expanding service lines.

Financial Profile

Operations

UCMC saw a decline in its operations in fiscal 2011, posting an operating margin of 6.2% compared with an 8.0% operating margin in fiscal 2010. UCMC's management continued to focus on lowering the expense base and implemented its "Operational Excellence" program centered on labor productivity. UCMC also appointed an individual to focus on the supply chain and monitored the length of stay and readmission rates to help control the cost of care. The Operational Excellence program has helped to improve operations at UCMC during fiscal 2012. In the first nine months of fiscal 2012, UCMC posted an operating margin of 10.7% compared with a 6.5% margin in the prior-year period. UCMC's pro forma maximum annual debt service coverage measured 5x (inclusive of debt service for the \$75 million of debt to be issued later in calendar 2012).

Balance sheet

UCMC's balance sheet remains a pressure on the rating. Although liquidity remains strong at 322 days' cash on hand, pro forma leverage is high for the rating at 44% and cash to pro forma leverage is below average at 115%. When including the anticipated \$75 million of debt, pro forma leverage rises to 46.5% and cash to pro forma debt declines to 104.7%. We anticipate positive improvement in the less-than-adequate balance sheet ratios as the construction project is completed.

University of Chicago Hospitals and Health System Financial Summary

	--First nine months ended March 31--		--Fiscal year ended June 30--	
	2012	2011	2010	2009
Financial performance				
Net patient revenue (\$000s)	920,248	1,132,299	1,085,501	1,194,731
Total operating revenue (\$000s)	972,574	1,201,075	1,153,764	1,268,219
Total operating expenses (\$000s)	868,651	1,126,195	1,061,709	1,203,112
Operating income (\$000s)	103,923	74,880	92,055	65,107
Operating margin (%)	10.69	6.23	7.98	5.13
Net non-operating income (\$000s)	30,217	44,352	20,720	(91,735)
Excess income (\$000s)	134,140	119,232	112,775	(26,628)
Excess margin (%)	13.38	9.57	9.60	(2.26)
Operating EBITDA margin (%)	16.86	12.73	14.13	10.69
EBIDA margin (%)	19.37	15.83	15.65	3.73
Net available for debt service (\$000s)	193,826	197,194	183,899	44,300
Maximum annual debt service (\$000s)	52,086	52,086	52,086	52,086
Maximum annual debt service coverage (x)	4.96	3.79	3.53	0.85
Liquidity and financial flexibility				
Unrestricted cash and investments (\$000s)	961,326	1,026,249	803,513	628,156

Unrestricted days' cash on hand	321.8	353.7	293.2	200.1
Unrestricted cash/total long-term debt (%)	115.4	121.6	138.8	170.5
Cash available within 30 days/contingent liability debt (%)				
Average age of plant (years)	10.3	9.7	10.0	10.0
Capital expenditures/Depreciation and amortization (%)	360.2	364.4	259.2	170.2
Debt and Liabilities				
Total long-term debt (\$000s)	833,310	843,944	578,807	368,389
Long-term debt/capitalization (%)	44.1	44.2	40.3	34.7
Contingent liabilities (\$000s)	410,066	410,066	226,803	226,803
Contingent liabilities/total long-term debt (%)	49.2	48.6	39.2	61.6
Debt burden (%)	3.90	4.18	4.43	4.07
Defined benefit plan funded status (%)	N/A	59.21	48.24	50.77
Pro forma ratios (anticipated \$75 million of new debt)				
Unrestricted days' cash on hand	321.8	N/A	N/A	N/A
Unrestricted cash/total long-term debt (%)	104.71	N/A	N/A	N/A
Long-term debt/capitalization (%)	46.54	N/A	N/A	N/A

N/A--Not applicable.

New Hospital Pavilion

The new hospital pavilion is a 10-story building that will contain 240 private inpatient and intensive-care beds, 28 state-of-the-art operating rooms, 12 rooms for gastrointestinal and pulmonary procedures, seven interventional radiology suites, and advanced diagnostic tools such as high-resolution, high-speed magnetic resonance imaging and computed tomography scanners. Major construction began in 2009, and the building will open in early 2013. The top three floors will each contain 80 private patient rooms, including 24 intensive-care beds. The sixth floor will initially house 21 operating rooms out of 28 maximum, plus preoperative and recovery areas. The fifth floor will be devoted to diagnostic imaging and procedure areas, including interventional radiology, gastrointestinal procedures, pulmonary and bronchoscopy areas, cardiac electrophysiology, and patient preparatory and recovery areas. The third and fourth floors will initially be left as shell space, providing expansion room for developing programs.

UCMC financed this \$700 million project with \$500 million of tax-exempt debt, \$100 million of gifts, and \$100 million of cash and investments. The new hospital will connect to both the University of Chicago Comer Children's Hospital and the Duchossois Center for Advanced Medicine, the latter of which is the medical center's outpatient care facility. It will also be adjacent to two research facilities: the 430,000-square-foot Gordon Center for Integrative Science and the 330,000-square-foot, 12-story Knapp Center for Biomedical Discovery, which opened in 2009.

Letter Of Credit Analysis

The ratings on both the 2009E-1 and 2009E-2 are based on the application of our joint criteria using the low-correlation chart.

For the series 2009E-1 and 2009E-2, the long-term component of the rating is jointly based, at a low-correlation level, on the long-term rating on the UCMC and the LOC provided by JPMorgan Chase. The short-term component of the rating is based on the liquidity provided by the LOC from JPMorgan Chase.

The LOC is to expire on Aug. 17, 2012, unless terminated earlier pursuant to its terms. The LOC is sized at principal plus 43 days' interest, calculated with a maximum rate of 12% annually.

The LOC provides coverage in the daily and weekly rate modes, but the bonds initially bore interest in the daily rate mode. The bonds can be converted to bear interest at the daily, weekly, LIBOR-based interest, long-term interest, bond interest term, auction, or defined interest rate mode. Upon conversion to any new rate mode, a mandatory tender will occur. The LOC will terminate 15 days following conversion to any rate mode other than the daily or weekly modes.

Holders may tender their bonds while the bonds bear interest in the daily or weekly rate modes upon providing the appropriate notice specified by the respective series' trust indenture. In the event of default under the reimbursement agreement, the trustee is instructed to effect a mandatory tender; the respective LOC will terminate on the earlier of its honoring a payment on the bonds or 15 days after the trustee is notified of such event of default. Should the respective LOC not reinstate interest because of an event of default under the reimbursement agreement, the trustee is instructed to either effect a mandatory tender or to accelerate the bonds.

The bonds will also be subject to either a mandatory tender on the fifth calendar date preceding the expiration or termination of the LOC, unless a substitute LOC has been delivered along with a rating confirmation. The bonds are further subject to optional redemptions as outlined in the bond documents.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Bank Liquidity Facilities, June 22, 2007
- USPF Criteria: Standby Bond Purchase Agreement Automatic Termination Events, April 11, 2008
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011

Ratings Detail (As Of June 12, 2012)

Illinois Fin Auth, Illinois

University of Chicago Med Ctr, Illinois

Illinois Finance Authority (University of Chicago Medical Center)

Long Term Rating

AA-/Stable

Affirmed

Illinois Finance Authority (University of Chicago Medical Center) hosp VRDO ser 2009E1-2

Long Term Rating

AAA/A-1

Affirmed

Unenhanced Rating

AA-(SPUR)/Stable

Affirmed

Illinois Finance Authority (University of Chicago Medical Center) (MBIA) (National)

Unenhanced Rating

AA-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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